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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Audit Of The Neighborhood Reinvestment Corporation's Financial Statements For The Fiscal Year Ended September 30, 1981

GAO reviewed the report on the audit of the Neighborhood Reinvestment Corporation's fiscal 1981 financial statements and the work of the Corporation's independent certified public accountant. GAO found nothing to indicate that the opinion of the Corporation's independent accountant is inappropriate or cannot be relied on.

In the opinion of the independent accountant, the Corporation's financial statements present fairly the financial position of the Neighborhood Reinvestment Corporation as of September 30, 1981, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



119461

GAO/AFMD-82-89
SEPTEMBER 15, 1982

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-207894

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review of the audit of the Neighborhood Reinvestment Corporation's financial statements for the year ended September 30, 1981. The Corporation was established by the Congress on October 31, 1978, to promote reinvestment in older neighborhoods. The Corporation is required by 42 U.S.C. 8106 to retain an independent certified public accounting firm to perform an annual audit of its accounts. In order to satisfy this provision, the Corporation has retained the firm of Touche Ross & Co. (TR & Co.). In the opinion of TR & Co., the Corporation's financial statements present fairly the financial position of the Neighborhood Reinvestment Corporation as of September 30, 1981, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

This same law also provides that in addition to the annual audits, GAO may audit the Corporation's financial transactions in accordance with such rules and regulations as may be prescribed by the Comptroller General, and that GAO shall conduct such an audit at least once every 3 years. We believe that, in order to avoid unnecessary duplication and expense and make the best use of our limited resources, we can best discharge our responsibilities under this law by reviewing and, to the extent appropriate, relying upon the work and report of the Corporation's independent certified public accountant. We believe this approach provides a reasonable and cost effective means of assuring the Congress that the Corporation's financial activities are fairly presented.

TOUCHE ROSS & CO. OPINION

We reviewed the workpapers and audit report of Touche Ross & Co., to determine the quality of its work and the extent to which we could rely on it. We performed such tests of TR & Co.'s workpapers and audit report as we considered necessary to ensure that:

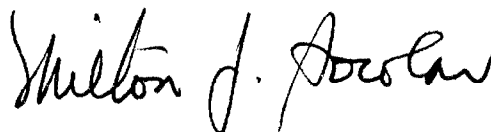
- The Corporation's financial statements were prepared in accordance with generally accepted accounting principles.
- TR & Co.'s audit was made in accordance with generally accepted government auditing standards.

--TR & Co. had established the necessary policies and procedures to comply with other applicable professional standards.

Our review was conducted at the Corporation's and TR & Co.'s offices in Washington, D.C.

During this review nothing came to our attention that would indicate that TR & Co.'s opinion on the Corporation's 1981 financial statements was inappropriate or couldn't be relied upon. Copies of TR & Co.'s opinion and the Corporation's 1981 financial statements are attached. (See app. I.)

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairman of the House Judiciary Committee; the Chairman of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman of the House Committee on Banking, Finance, and Urban Affairs; and the Board of Directors of the Neighborhood Reinvestment Corporation.

A handwritten signature in dark ink, reading "Milton J. Aboian". The signature is written in a cursive, flowing style.

Acting Comptroller General
of the United States

Touche Ross & Co.

December 21, 1981

Board of Directors
Neighborhood Reinvestment
Corporation
Washington, D.C.

We have examined the balance sheets of Neighborhood Reinvestment Corporation as of September 30, 1981 and 1980, and the related statements of revenue, expenses and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Neighborhood Reinvestment Corporation as of September 30, 1981 and 1980, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Touche Ross & Co.

April 12, 1982

The Board of Directors
Neighborhood Reinvestment Corporation
Washington, D.C.

We have examined the financial statements of Neighborhood Reinvestment Corporation for the year ended September 30, 1981, and have issued our report thereon dated December 21, 1981. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards.

For the purposes of this report significant accounting controls are classified as they relate to the following areas:

- 1) Purchases and cash disbursements,
- 2) Cash receipts,
- 3) Payroll, and
- 4) Journal entry preparation

Our study included all of the areas listed above. However, we did not evaluate the internal accounting controls in these areas because we concluded that the audit could be performed more efficiently by expanding substantive audit tests and placing no reliance on the internal control system.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls identified above.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Touche Ross & Co.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Neighborhood Reinvestment Corporation taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

This report is intended solely for the use of management of Neighborhood Reinvestment Corporation, the General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Touche Ross & Co.

Certified Public Accountants

Touche Ross & Co.

April 12, 1982

The Board of Directors
Neighborhood Reinvestment Corporation
Washington, D.C.

We have examined the financial statements of Neighborhood Reinvestment Corporation as of and for the year ended September 30, 1981, and have issued our report thereon dated December 21, 1981. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" promulgated by the Comptroller General, which pertain to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed Sections 601 through 608 of the Housing and Community Development Amendments of 1978 (PL95-557) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the Corporation complied with the material compliance requirements of PL95-557 referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

Touche Ross & Co.
Certified Public Accountant

*Touche Ross & Co.*NEIGHBORHOOD REINVESTMENT CORPORATIONBALANCE SHEETS

	<u>September 30,</u>	
	<u>1981</u>	<u>1980</u>
<u>ASSETS</u>		
CASH	\$ -	\$ 56,466
SHORT-TERM INVESTMENTS (at cost, which approximates market)	6,370,787	5,583,770
RECEIVABLES:		
Loan receivable (Note C)	-	600,000
Federal Home Loan Bank System	140,915	161,306
Local governments	497,135	239,272
Accrued interest receivable	370,296	212,079
Other receivables	-	39,400
TRAVEL ADVANCES	59,895	47,200
PREPAID EXPENSES AND OTHER	111,634	105,407
OFFICE FURNITURE AND EQUIPMENT, less accumulated depreciation of \$159,859 and \$53,499	<u>750,377</u>	<u>166,520</u>
	<u>\$8,301,039</u>	<u>\$7,211,420</u>
<u>LIABILITIES AND FUND BALANCE</u>		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 943,294	\$1,069,941
CHECKS DRAWN IN EXCESS OF BANK BALANCES	686,475	-
GRANT COMMITMENTS (Note D)	3,714,392	3,287,555
UNEXPENDED LOCAL FUNDS	852,919	402,310
INSTALLMENT PURCHASE PAYABLE (Note E)	418,802	-
FUND BALANCE	<u>1,685,157</u>	<u>2,451,614</u>
	<u>\$8,301,039</u>	<u>\$7,211,420</u>

See notes to financial statements.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONSTATEMENTS OF REVENUE, EXPENSES AND CHANGES
IN FUND BALANCE

	<u>Year ended September 30,</u>	
	<u>1981</u>	<u>1980</u>
REVENUE:		
Congressional appropriation	\$12,459,000	\$12,000,000
Federal Home Loan Bank System	1,398,269	948,361
Local governments	776,067	517,711
Interest	1,436,240	935,317
Other	-	9,500
TOTAL REVENUE	<u>16,069,576</u>	<u>14,410,889</u>
EXPENSES:		
Grants and grant commitments:		
From Congressional appropriation	4,281,463	2,638,814
From local government sources	64,444	35,104
Salaries and employee benefits	6,873,700	5,064,395
Travel	2,207,625	1,428,606
Professional services	689,307	716,328
Conference and workshops	647,157	641,515
Rent	758,811	492,019
Telephone, postage and delivery	442,476	322,963
Printing, films and supplies	303,808	308,328
Other general and administrative	453,116	351,370
Depreciation	114,126	30,673
TOTAL EXPENSES	<u>16,836,033</u>	<u>12,030,115</u>
REVENUE OVER (UNDER) EXPENSES	(766,457)	2,380,774
FUND BALANCE, Beginning of year	<u>2,451,614</u>	<u>70,840</u>
FUND BALANCE, End of year	<u>\$ 1,685,157</u>	<u>\$ 2,451,614</u>

See notes to financial statements.

Touche Ross & Co

NEIGHBORHOOD REINVESTMENT CORPORATION
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	<u>Year ended September 30,</u>	
	<u>1981</u>	<u>1980</u>
USES OF FUNDS:		
Revenue under (over) expenses	\$ 766,457	\$(2,380,774)
Items not requiring outlay of funds:		
Depreciation	<u>(114,126)</u>	<u>(30,673)</u>
Funds used in (provided by) operations	652,331	(2,411,447)
Increase in short-term investments	787,017	2,918,770
Increase in office furniture and equipment - net	697,983	52,513
Increase in local government receivables	257,863	-
Increase in accrued interest receivables	158,217	210,432
Decrease in accounts payable and accrued expenses	126,647	-
Increase in travel advances	12,695	13,691
Increase in prepaid expenses and others	6,227	88,077
Increase in loan receivable	-	600,000
Increase in Federal Home Loan Bank System receivable	-	86,587
Increase in other receivables	-	39,400
Decrease in due to U.S. Treasury	-	23,275
Decrease in grant commitments	-	608,700
	<u>\$2,698,980</u>	<u>\$2,229,998</u>
SOURCES OF FUNDS:		
Increase in checks drawn in excess of bank balance	\$ 686,475	\$ -
Decrease in loan receivable	600 000	-
Increase in unexpended local funds	450,609	41,786
Increase in installment purchase	418,802	-
Increase in grant commitments	426,837	-
Decrease in cash	56,466	110,620
Decrease in other receivables	39,400	-
Decrease in Federal Home Loan Bank System receivable	20,391	-
Decrease in local government receivables	-	57,754
Decrease in Department of Housing and Urban Development Grants	-	1,500,000
Increase in accounts payable and accrued expenses	-	519,838
	<u>\$2,698,980</u>	<u>\$2,229,998</u>

See notes to financial statements.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1981 AND 1980A. ORGANIZATION

Neighborhood Reinvestment Corporation was established by Congress on October 31, 1978, by the Neighborhood Reinvestment Corporation Act. The purpose of the Corporation is to continue the joint efforts of the Federal financial supervisory agencies and the Department of Housing and Urban Development (HUD) in promoting reinvestment in older neighborhoods by local financial institutions in cooperation with the community residents and local government. This effort was previously conducted by the Urban Reinvestment Task Force, which the Corporation supercedes.

As stipulated in the Act, the Corporation is under the direction of a board of directors comprised of the Chairman of the Federal Home Loan Bank Board, the Secretary of Housing and Urban Development, a member of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Chairman of the National Credit Union Administration.

During 1980, the name of the Corporation was changed from National Neighborhood Reinvestment Corporation to Neighborhood Reinvestment Corporation.

B. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's funding is provided through Congressional appropriation. In addition, administrative support is received from the Federal Home Loan Bank System (FHLB) through its Office of Neighborhood Reinvestment (ONR), and monetary support is provided from local government agencies. The Congressional appropriation in 1981 and 1980 have been recognized as revenue when granted. The administrative expenses of ONR are reimbursed by the FHLB and these amounts are shown in the accompanying financial statements as both revenue and expenses. Support from local government agencies is recorded as revenue when costs are incurred; funds received but unexpended are reflected as a liability.

Cash in excess of amounts required to fund current operations is invested in short-term investments.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1981 AND 1980
(continued)

Office furniture and equipment is recorded at cost. Depreciation is computed using the straight-line method on the estimated useful lives of the assets which are 5 to 8 years.

C. LOAN RECEIVABLE

At September 30, 1980, the Corporation had a loan receivable from the Neighborhood Housing Services of America, Inc. (NHS), which was due on or before July 31, 1981, with interest of 5 1/2% per annum. During 1981, the loan was repaid in full.

D. GRANT COMMITMENTS

The Corporation provides grant funds to neighborhood housing service programs and neighborhood preservation projects in partial support of program costs and to create revolving loan funds. At the point in time that the funds are committed, in substance a grant is recognized; therefore, committed but unexpended grant funds are recorded as a liability in the accompanying financial statements. As of September 30, 1981 and 1980, grant funds were committed in the following program areas:

	<u>1981</u>	<u>1980</u>
Neighborhood Housing Services	\$2,205,812	\$2,217,182
Neighborhood Preservation Projects	470,840	528,229
Neighborhood Housing Services Expansion	602,083	279,583
Neighborhood Preservation Development	<u>435,657</u>	<u>262,561</u>
	<u>\$3,714,392</u>	<u>\$3,287,555</u>

E. INSTALLMENT PURCHASE PAYABLE

In 1981, the Corporation entered into an agreement with the Federal Home Loan Mortgage Corporation to purchase approximately \$586,300 of office furniture and equipment.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1981 AND 1980
(continued)

Payment of the total sales price is to be made over a seven year period in equal annual payments of approximately \$83,700 due each March 31.

F. PENSION PLAN

Effective October 1, 1980, the Corporation established a defined contribution pension plan which covers substantially all of its employees. Although the plan is non-contributory, employees may make a voluntary contribution of up to 6% of their annual salary. The Corporation's contribution is determined based on employees' salary levels as well as the partial matching of each employee's voluntary contribution. The Corporation's policy is to fund pension cost currently. Total pension expense was \$416,162 and \$233,330 for 1981 and 1980, respectively.

The Corporation's defined benefit pension plan was terminated effective September 30, 1980, upon adoption of the defined contribution plan.

G. LEASE COMMITMENTS

The following is a schedule, by year, of future minimum rental payments on noncancellable operating leases having initial or remaining terms of more than one year as of September 30, 1981:

1982	\$225,312
1983	167,237
1984	96,591
1985	<u>17,730</u>
Total	<u>\$506,870</u>

Excluded in the above schedule is the lease arrangement with the Federal Home Loan Bank Board for space for the Corporation's administrative offices. The current yearly rental for the space is \$522,276.

Rent expense under operating leases for the years ended September 30, 1981 and 1980, was \$758,811 and \$492,019, respectively.

*Touche Ross & Co.*ADDITIONAL INFORMATION

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining information is presented for purposes of additional analysis, by funding source, of the statements of revenue, expenses and changes in fund balance rather than to present the results of operations of the individual funding sources. The combining information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Touche Ross & Co.

Certified Public Accountants

NEIGHBORHOOD REINVESTMENT CORPORATION
COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 1981

	<u>Office of Neighborhood Reinvestment</u>	<u>Congressional Appropriation</u>	<u>Local Sources</u>	<u>Total</u>
REVENUE:				
Congressional appropriation	\$ -	\$12,459,000	\$ -	\$12,459,000
Federal Home Loan Bank System	1,398,269	-	-	1,398,269
Local governments	-	-	776,067	776,067
Interest	-	1,421,401	14,839	1,436,240
TOTAL REVENUE	1,398,269	13,880,401	790,906	16,069,576
EXPENSES:				
Grants and grant commitments:				
From Congressional appropriation	-	4,281,463	-	4,281,463
From local government sources	-	-	64,444	64,444
Salaries and employee benefits	460,493	5,744,576	668,631	6,873,700
Travel	147,298	1,774,129	286,198	2,207,625
Professional services	-	555,939	133,368	689,307
Conference and workshops	-	439,623	207,534	647,157
Rent	519,142	230,089	9,580	758,811
Telephone, postage and delivery	7,451	383,735	51,290	442,476
Printing, films and supplies	204	259,819	43,785	303,808
Other general and administrative	46,983	309,176	96,957	453,116
Depreciation	69,186	44,940	-	114,126
Project Development Expense	-	785,720	(785,720)	-
TOTAL EXPENSES	1,250,757	14,809,209	776,067	16,836,033
REVENUES OVER (UNDER) EXPENSES	147,512	(928,808)	14,839	(766,457)
FUND BALANCE, Beginning of year	10,953	2,419,717	20,944	2,451,614
FUND BALANCE, End of year	\$ 158,465	\$ 1,490,909	\$ 35,783	\$ 1,685,157

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